PROFIT SHARING IN THE UNITED STATES.

One of the greatest advantages resulting from the present system of economic freedom is the great scope given for variation of social types. Through individual initiative these variations are produced, to be developed or annihilated by social forces as the variations are or are not conformable to the existing social environment. In a study of such variations, either in an attempt to determine the action of social forces upon them as exemplifying social progress, or in an estimate of their statical value to the existing system, it is essential to distinguish between the many similar variations in the same direction. This is not done in the study of the subject under consideration. The wage system, now well established for a century, has shown a decided tendency to vary. This variation is chiefly in the direction of the admission of the laborers into a share of the product, in addition to their participation as wage receivers. But to designate all such variations, or even many of them, "profit sharing," is manifestly improper. The fact that a type indicates a tendency to vary in a given direction is *prima facie* evidence of the expediency of some such change, to the type at least. But of these many variations one is to be selected, while the many fail to conform to the requirements of the environment. To judge then of the merits of such a tendency in a given direction, by averaging the success of these many variations is illogical; no less so is it to estimate the value of any one variation by a similar general average. It is essential for either purpose to study each variation separately. Only by such a relative study and estimate can a trustworthy judgment be reached.

Hence, for the present purpose, such a definition of terms as the following cannot be accepted. "The term profit sharing may be applied to any arrangement whereby labor is rewarded in addition to its wages, or in lieu of wages, by participation in the

profits of the business in which it is employed. Benefits of various kinds, as insurance, schools, libraries and beautiful surroundings, so long as maintained by employers out of their profits, and enjoyed by employes as an addition to what their wages would purchase, would have to be regarded in a strict analysis, as an indirect form of profit sharing."[1] Mr. Gilman gives this more restricted definition: "The method of rewarding labor by assigning it a share in the realized profits of business in addition to wages."[2] From the point of view of the Association for the Promotion of Profit Sharing, such a definition is acceptable; for its purpose is to encourage the multiplication of any such variations as may alleviate the existing evils of the industrial system. All such variations are to be encouraged in the hope that *the one* may be discovered, and in the belief that every such modification is an immediate benefit. But for the purpose of a purely objective estimate, such a definition is inadequate. It is the use of terms, not the motive, that is criticised. Nothing is to be gained, either from a scientific or a business point of view, by estimating indiscriminately, profit sharing, gain sharing, indeterminate bonus, labor insurance, stock holding by employés, percentage on sales, product sharing and similar forms. Nor is it possible, with such a vague basis of classification, to draw the line between those forms and progressive wages, sliding scales and similar forms until the wage system, so far as it is above a subsistence wage, is included. So much in justification of the use of terms in the present article. Profit sharing, as here understood, is an arrangement under which both employers and employés receive, in addition to their wages, a *predetermined* share in the profits. This is the meaning of the term as defined by the International Congress of Profit Sharing at Paris in 1889.

So much that is written concerning profit sharing, in any interpretation of the term, is purely *a priori* discussion, that the most of this paper will be given to a statement of the experience in the United States, preliminary to a further discussion of the

[1] Carroll D. Wright in the Seventeenth Annual Report of the Massachusetts Bureau of Labor, p. 152.

[2] *Profit Sharing between Employer and Employé*, p. 8.

merits and demerits of the plan both in theory and in practice. The information has been derived from extensive correspondence with every firm mentioned and many others. These firms include all that could be located through the assistance of the Association for the Promotion of Profit Sharing, their magazine *The Employer and Employed*, and from miscellaneous investigation.[1] The officers of the association, Col. Carroll D. Wright, N. O. Nelson and Rev. N. P. Gilman, assure the writer that all such firms, of which they have any knowledge, are included. For the earlier experience of many of the oldest firms, the writer is indebted to Mr. Gilman's *Profit Sharing between Employer and Employé*, by far the most comprehensive work that has appeared in any language.

The justification often given for a purely theoretical advocacy of the plan, without any adequate presentation of evidence, is that such an exposure of evidence will result in an injury both to the experimenting firms and to the plan in general. The objection does not seem a valid one. For, in the first place, if the plan is not a success and cannot succeed, it is detrimental to the development of the very spirit desired to be promoted, by making the most progressive employers, and workmen as well, skeptical of the value of all such efforts. Again, those firms which still continue the plan, are so well known that further publicity is of no import; and judging from the general tenor of the replies from those firms that have abandoned the plan, their experiments cannot be more effectively killed. An additional justification, if any such is needed, is found in the fact that all of the several firms interrogated replied that they had experienced no injury whatever from the publicity given their business affairs.

PROFIT SHARING ENTERPRISES NOW IN OPERATION.[2]

The Pillsbury-Washburn Milling Company, of Minneapolis, Minn., inaugurated what is now the oldest profit sharing plan in operation, in September, 1882, at the end of their milling year. One

[1] The writer will be grateful for information concerning any firm, not mentioned in the paper, which has had experience with profit sharing in any form.

[2] Such well-known enterprises as the Alfred Dolge & Son felt manufactory, which

year from that date about 25 per cent. of the 400 or more men employed participated in a distribution of a bonus of more than $40,000. The participants included "first, all men having positions of responsibility in the offices as well as in the mills,—nearly every man whose labor could be called skilled or upon whose fidelity much depended, being in the number; and, second, there were included all employés, however menial their work, who had been in the service of the firm continuously for five years." The bonus amounted to about 33 per cent. on wages for the year, though the basis of division between employer and employés was not and never has since been made public. The bonus is declared on all profits remaining after 8 per cent. interest has been paid on all capital invested. The two succeeding years a similar sum was paid to about 33 per cent. (in 1885) of the men, the ratio of bonus to wages remaining about one to three. Two years of unprofitable business followed, with no bonus. Participation in profits was resumed in 1888, a larger proportion of the employés being benefited thereby. Since 1891 no bonus has been paid, a condition due to the prevalent business depression. At all times the firm has paid the highest rate of wages to all employés. Mr. Charles A. Pillsbury writes: "I do not believe it has ever lessened our profits. I think that the men have done enough better to make up for all we have paid them." The significance of this statement is emphasized by Dr. Shaw in his account of this enterprise. He says, "I need not say to students of the labor question that this assurance is the most important thing I have to communicate on this subject.

has a system of labor pensions and labor insurance, and the Gain Sharing system of the Yale & Towne company are not here included, because they are based upon quite different principles from that of profit sharing. It is true that they are often described as such, but they have little in common. The latter system is described in the *Transactions of the American Society of Mechanical Engineers*, Vol. X, pp. 600 *et seq.*, or in D. F. Schloss' *Report on Gain Sharing* to the Board of Trade (C.-7848), pp., 7-26. Similar to these is the system of indeterminate bonus as practiced by the H. K. Porter locomotive works of Pittsburg, Pa., and many other firms. As interesting and commendable as these modifications of the wage system are, they do not come within the scope of this inquiry, nor do they offer any testimony as to the inherent value of profit sharing as a solution of the industrial problem.

If Mr. Pillsbury from his abundance and his generosity maintained this system at some willingly made sacrifice—a thing of which he is perfectly capable—it would be extremely creditable to him individually and exceedingly fortunate for his employés individually; but it would not help to solve the labor question at large. Unless experiments at coöperative profit sharing prove advantageous enough to recommend the system to employers for business reasons, the system must be counted a disappointment and a failure. Few employers are in a position to do business on any system that handicaps them in the fierce struggle of competition."[1]

The Columbus (Ohio) Gas Company adopted a plan of profit sharing in 1885. President Emerson McMillan gives the following account:

Former method was to divide equally the saving in the cost of labor per unit of product. That is to say,—if cost of labor for unit of product was reduced 5 per cent. in any one year as compared with the preceding year, the men's wages would be increased 2½ per cent. from that time on. Eventually we reached a point when further reductions were not possible. Under method adopted in 1895, we pay the men a dividend at the same time and at the same rate paid to the stockholders, payable semi-annually. The stockholders' dividend is figured on the amount of his stock. The employés' dividend is figured on his earnings. If an employé earns $1000 a year, he receives a dividend of $50. Every employé from the president down is entitled under certain restrictions to participate in the dividend. In the company to which I am referring about seventy-five, or say, nine-tenths of our regular employés participate. The conditions are: (*a*) The employé must have been in the service of the company for one year preceding the beginning of the six months for which a dividend is declared. (*b*) His services must have been continuous and satisfactory. If compelled to be absent a satisfactory substitute is accepted. (*c*) Until an employé has become the actual owner of at least three shares of stock, either through dividends or purchase, the company may pay the dividend in stock. We greatly desired to have all our employés become

[1] Albert Shaw, *Coöperation in a Western City*, American Economic Association publications, 1887; pp. 183-190. Also Johns Hopkins University Studies in Historical and Political Science, Sixth Series, pp. 256-263.

stockholders. In this we will probably fail. More than half of the employés sold their first stock dividend. But one has yet been paid. We provide our men with a large hall, lighted and heated, billard and pool tables, a card room, a reading room with scientific books, magazines and papers.

The N. O. Nelson Manufacturing Company, of St. Louis, Mo., Mound City, Ill., and LeClaire, Ill., is the most noted and one of the most successful instances of profit sharing in this country. This firm, established in 1871, manufactures plumber's goods, steam engines, pumps, etc. In 1886 this plan of profit sharing was adopted. Capital is allowed the commercial rate of interest, 10 per cent. of the profits is set aside for a reserve fund, 10 per cent. for a provident fund, and the remainder is divided equally between wages and capital. The reserve fund was created to meet the losses of bad years and equalize dividends when profits were small, the provident fund to take care of the sick, the disabled and the families of deceased laborers. After five years the manner of division was changed so as to yield 2 per cent. dividends on wages for every 1 per cent. on capital, and in place of a fixed per cent. for the special funds whatever was necessary for these purposes was to be paid out of gross profits. In the beginning dividends were payable in cash or in the stock of the company, at the option of the employé. As about three-fourths of the first four dividends were invested in stock, the rule was changed so as to make all dividends payable in the stock of the company. Stock is always redeemed at par whenever the holder leaves the employ of the company. In 1894, a rule was adopted permitting participation in dividends only to those who, working full time and getting full pay, saved 10 per cent. of their wages and invested the savings in the stock of the company. This is not only to enable the employé to save rather than to consume his dividends, and to place upon him the responsibility for this, but to constitute the enterprise a real coöperative undertaking. The bonus averaged about 9 per cent. on wages for the first seven years. In 1893, owing to the business depression, there was no dividend. Rather there promised

to be a deficit. The employés of all departments voluntarily agreed to a cut of 25 per cent. on wages, they to be recouped when business permitted. This was done at the end of the year, the condition of the business allowing even a small interest on capital. The following year the men agreed, again voluntarily, to work ten hours a day instead of nine. "The company believes that the hourly return for nine hours is greater than the hourly return for ten, but in the aggregate more work will be done in ten hours than in nine." These two years were a severe test, but resulted in a proof of the feasibility, of the plan.

Mr. Nelson is a believer in coöperation as a status to be reached through profit sharing.[1] In this his hopes have not been realized. Though of the five hundred of his employés, all who have been with him for ten months, who participate in the division of the bonus, about four hundred are also holders of stock. A recent attempt at an innovation resulted in so much misunderstanding in the newspaper accounts that the company's statement is essential to a correct estimate of the experiment:

The proposal which made a momentary disturbance in one of the LeClaire departments—only one—December 1 (1895), was that the department which was the oldest at LeClaire should become the owners of the plant and working capital at its first cost, by contributing at the start one-fourth of their wages when working full time, the proportion to decrease at double the rate at which they should decrease the purchase price; that they should pay the company 6 per cent. interest on the investment, and have all the profits; that they should organize as a coöperative concern as soon as one-tenth of the purchase price was paid off; that the company should have control, but without any charge for business management, until they had paid off one-half. The company estimate that at the end of the first year there would be a reduction from wages of about one-eight, and at the end of the second year nothing; and that the whole would be paid in about six or eight years. The objections, which seem not to have been raised in the meeting, were the immediate loss of wages and the fear of a going-alone idea. A good part of the force went right along and never

[1] *Through Profit Sharing to Coöperation* in *The Employer and Employed* for January 1894.

stopped; but there was enough mischief in some to create actual trouble, which it was not well to risk. The proposal was immediately called off, and the work went on in the usual way. There has been a considerable increase of those who leave in 10 per cent. The idea of getting the LeClaire departments, one by one, converted into coöperative shops on a safe basis, has not been abandoned by the company. The only reason for requiring a payment out of wages was to make them in part pay for it themselves, which was apparently the only course that would make them take the necessary interest in it.

The Nelson company has founded a workmen's town, supports schools and kindergartens, libraries, places of amusement, assists a coöperative store, and in various other ways evinces its extraordinary interest in the welfare of its employés. It is not claimed by the company that there is no lessening of its profits, though it repudiates any philanthropic basis for its action. However, it must be admitted that a higher standard of justice here prevails than any one can expect to become immediately prevalent in the business world.[1]

The Rice and Griffen Manufacturing Company, of Worcester, Mass., employ 115 hands in the manufacture of mouldings, sashes and blinds. In 1887 a plan of profit sharing was introduced which is still continued. Interest at 6 per cent. is reserved, and the net profits are divided equally between the employers and those employés who have worked in the company's shops for six months. The bonus has amounted to 4 per cent. on wages some years, though for several of the past years there have been no profits to divide. The firm is of the opinion that the division has not lessened the profits of the firm.

The Procter and Gamble[2] *firm*, one of the oldest and best known manufacturers of soaps in the United States, located at Ivorydale, a small suburb of Cincinnati, Ohio, have practiced profit sharing since 1887. They employ about 500 laborers,

[1] *Two Examples of Successful Profit Sharing* by Professor F. W. Blackmar in *The Forum* for March 1895, is perhaps the most accessible of the many articles written concerning Mr. Nelson's endeavors.

[2] See the article on *Two Examples of Successful Profit Sharing* in *The Forum* for March 1895.

mostly unskilled, in the factory, and about 100 in the offices. The plan of division, as adopted in 1890, is to pay to employés the same dividend on wages as is paid on stock. This has averaged a 12 per cent. dividend since the plan was adopted. These dividends are paid semi-annually. All employés, after being in the employ of the company for three months, share in the dividends upon the same basis. Fully 98 per cent. of the employés now participate. The company reserves the right to deny the dividend to employés for cause, but the amount of this unpaid dividend must be divided among the other laborers, and does not go to the stockholders of the company. Any waste or loss of material, due to carelessness or neglect upon the part of an employé, is deducted from the negligent employé's dividend in favor of the company. The company encourages stock holding by the employés, and at present between seventy and eighty shares are so held. An insurance fund, a library and reading room, a company physician, etc. are provided by the company. The company also pays wages to injured employés. For the first few years the plan was not a success from a purely business point of view. But it is now held that the saving under profit sharing is largely in excess of the sums paid to wage earners as profits. This saving is one of time, of diminished waste of material, in making a better quality of product, in keeping men of experience and in oversight. Owing to the grade of labor employed, the success of profit sharing has here been a matter of education.

John Wanamaker, a mercantile firm, of Philadelphia, Pa., adopted in 1887, a method of profit sharing combined with a system of percentage on sales, long service pensions, and indeterminate bonus. On account of this complication of system, this experience is of little value as a test of profit sharing. Several thousand employés are benefited by the plan.

The Scott & Holston Lumber Company, of Duluth, Minn., adopted a division of profits based on wages in 1888. The results of their experience are thus stated:

For the last two years there have been no profits in our business

for anybody, so there has been no profit sharing; and we have not had enough experience in it to intelligently judge of the good results that might arise from it. We think that it is a good scheme, but we also think that its advantages have been exaggerated, and that no radical change can be made in our industrial conditions without injury to both employers and employés. We think that there is only one class of employés to whom a share should be given, and that class is experienced mechanics or those who may be styled well up in their trade. Common labor can hardly expect to participate in profit sharing since they are unstable and do not remain long in any one place, or in any position. This of course bars out all our common men, woodsmen and laborers who have no trade. The condition of this class it seems to us is becoming more and more hopeless.

The Bourne Mills of Tiverton, R. I., adopted profit sharing in 1889, and have paid thirteen semi-annual dividends to their employés. Of the total amount of net profits, not less than 6 nor more than 10 per cent. is set aside for distribution among employés. This is divided in the proportion which the wages of each operative for six months bear to the entire wage payment for that period. The rate of this payment has averaged over 3 per cent. "There is but one condition necessary to entitle every one in our employ to share in the profits, namely, faithful service during the required term; though it is stipulated that each employé shall deposit some sum of money every month if possible in the Employés Savings Fund or in some savings bank." In November 1895 a vote of the employés was taken as to the expediency of continuing profit sharing. There were only six negative votes, the plan being disliked by one of the local trade unions; one negative, however, explaining that he felt the corporation did not receive an equivalent. The treasurer of the company writes: "Our directors are 'strictly business' and the plan is a method of business, and thus far we have been satisfied with the returns. The scheme is bitterly disliked by some of our competitors here." It is of interest to note that the antagonism of the trade unions is not general, as the following from an account of a meeting of the Spinners' and Carders' Union shows:

There was considerable talk about profit sharing dividend paid to the spinners at the Bourne Mill last month. Some spinners received as high as $21. The members thought it very nice to receive such a handsome addition to their wages. It spoke well for the mill and the good material used in it.[1]

C. G. Conn, manufacturer of band instruments at Elkhart, Ind., adopted a system of profit sharing in his establishment in 1891, and later in his printing office. After ascertaining the gross receipts for the year the proprietor deducts as his own share 28 per cent. This includes, (1) remuneration for services as *entrepreneur*, (2) interest on invested capital at 8 per cent., and (3) royalty on patents and use of proprietor's name. From the remaining 72 per cent., the running expenses of the year were next to be deducted. The surplus remaining was to be divided among employés as follows: In order to stimulate the five superintendents to careful oversight, twenty cents were to be given to each of them for every instrument manufactured and sold during the year. The remainder of the profits was to be divided in the ratio of ten, six and four among the employés who had been in continuous employment for at least one year, according to their membership in one of three classes; membership to be based on length and character of service. More than 80 per cent. of the two hundred and more employés now participate. While it is difficult to determine the ratio of bonus to wages in such a system, yet for the first two years it amounted to more than 12 per cent. The justification of the plan is stated by Mr. Conn as follows:

It is a reward that rightfully belongs to all faithful working people who give their best efforts to the interests of employers, and any business undertaking managed with skill and energy will pay larger profits controlled by some such plan as mine than it will under the ordinary wage system. Friendship pays in business as well as in social life; and if employers expect to obtain the best results from labor, they must cultivate more friendly relations with their employés, pay them better wages, and give them an opportunity to share such profits as good

[1] *The Fall River Daily Globe*, January 9, 1896.

conduct and an increased effort to make the business more profitable will warrant.

P. N. Kuss, painter and decorator, of San Francisco, Cal., introduced the first profit sharing experiment on the Pacific coast in 1890. The basis of division is, (1) current wages paid every week and salary of manager; (2) interest on capital invested at 10 per cent.; (3) profits divided into three equal parts, one-third payable to manager, one-third in cash to employés, and one-third invested for employés' benefit. The employés' portions are divided pro rata to earnings of the year. The bonus has averaged from 5 to 6 per cent. on wages, though for two of the five years no profits were made.

The Bowdoin Paper Manufacturing Company, of Brunswick, Maine, began practicing profit sharing in 1890. Ten per cent. of net profits, after interest on plant is deducted, is divided among employés in proportion to the wages they have received during the period of coöperation. The firm write: "Our experience has been favorable and we think well of the plan. For the past few years business has been in a depressed condition and the labor dividends have been small and infrequent, but we believe that the influence of the system is in the right direction." They believe that the system tends to increase rather than to decrease profits.

The Cumberland Mills, owned by S. D. Warren & Company, of Boston, Mass., practice a similar plan of profit sharing.

CASES OF TEMPORARY ABANDONMENT OF PROFIT SHARING DUE TO COMMERCIAL DEPRESSION.[1]

The Page Belting Company, of Concord, N. H., had several years' experience in profit sharing dating from 1887, The plan was to divide the net profits, after paying capital 10 per cent., up to

[1] *The Peace Dale Manufacturing Company, of Peace Dale, R. I.*, deserves mention in this connection. This firm, founded at the opening of the century, has an enviable record in its dealings with its employés. In 1878 an indeterminate plan of profit sharing was adopted, which in its application for four years, 1880 to 1884, was practically a determinate plan of profit sharing. Fifty per cent. of the net profits were divided among the employés, amounting to a bonus of 5 per cent. on wages for the first two

the sum of $1200 among the workmen not on salary. The division of this bonus was upon the basis of merit. The company write: "We have not been able, owing to the hard times, to give the profit sharing scheme any satisfactory test."

The Williamsport (Pa.) Iron and Nail Company, tried profit sharing for the year 1894, but owing to the condition of the trade the plan was abandoned. Ten per cent. of the net profits were to be distributed among the men in the proportion which each man's wages bore to the pay roll. "Our abandonment has only been temporary. Of course a crude effort for but one year would determine nothing, because the employés had to be educated to a standard which will make them fit instruments in working out at least one-half of this question. Even our brief experience made better workmen of our men."

Ginn and Company Publishers, of Boston, Mass.,[1] introduced a plan of profit sharing in 1891, which included all the publishing and office force, together with the agents in the field. The one distribution amounted to more than 6 per cent. on wages. The firm reports:

We intended to make this profit sharing a permanency, but just then the hard times came on, which have interfered with it even to the present time. The basis on which we made the division was that we would distribute among all of our people as a free gift one quarter of all the profits of the business over and above the preceding year. We hope at no distant day to return to a similar plan. We have found this condition of affairs to interfere somewhat with the scheme, that certain of our help are entitled to a rise in salary more than others, and they

years and to 3 per cent. for the next two years. Since then no dividends have been declared. "The plan is not now a dead letter, but neither is it clearly in evidence. The plan has resulted in a slight, but we think appreciable feeling of union between the employés and the owners. We have had no so-called 'labor troubles' during these hard times, but, on the other hand, have not cut wages or stopped the mills. In this way our help has actually received a bonus. We would not feel justified in ascribing this result to profit sharing, but that has helped rather than hindered."

The experience of this firm is fully detailed in the *Seventeenth Annual Report of the Massachusetts Bureau of Labor*, pp. 177–186, and in Mr. Gilman's *Profit Sharing*.

[1] The Century Company, Houghton, Mifflin and Company, The Staatz Zeitung, and other publishers continue various forms of intermediate bonus.

are naturally not as well satisfied with an even distribution according to previous salaries as they would be by varying it and recognizing the value of each in a special way, by increasing the salary when they deserve it, and I am at a loss today to know which is the safest basis on which to proceed. One has to recognize the varying deserts of employés and it brings in a complex element, for one cannot both raise the salary and give an extra allowance at the same time. If all would be content to continue to receive the same salary of the previous year and allow the distribution of extra dividends to be made pro rata on the salaries received, it would be very simple. That was the basis of our former allowance.

This reveals some of the difficulties of the plan when applied to a business not homogeneous.

Pomeroy Brothers, Manufacturing Chemists, of Newark, N. J., divided profits for two or three years previous to the recent business depression. Workmen who had been with the firm for more than six months and less than two years did or did not share in the dividend as the employers might decide; those who had been with the firm for more than two years shared in proportion to their wages. The readoption of the plan depends upon the attitude of new members of the corporation as well as a revival of business. The position of the president of the company is unequivocal. He writes:

If I can see my way clear to it, I would like to extend the profit sharing so that finally a committee chosen by the older and the best employés should have a large share in the management of the business, and perhaps finally the complete mangement of it, and that all the employés should share to a much larger extent than they do now in the profits, perhaps in all the profits instead of in a small part of them after the salaries are paid and the interest on the capital. But that is in the future and must be slowly worked out.

The Golden Pressed and Fire Brick Company, of Denver, Col, adopted the plan in 1891. After paying 5 per cent. on the capital stock of the company, no salaries allowed for superintendence, half of the profits were to go to stockholders and half to the employés, including all in the employ of the company for the previous six months. The basis of the division was the ratio

of wages to total wages of all employés. But one dividend was paid, of 2½ per cent. on wages in 1892.

CASES IN WHICH PROFIT SHARING HAS DEEN ABANDONED.

The experience of thirteen of the following thirty-two failures has been given either in the Seventeenth Annual Report of the Massachusetts Bureau of Labor or in Mr. Gilman's work on *Profit Sharing:* third, fourth, fifth and sixth of these cases are given in the former; the first, second, eighth, ninth, eleventh, twelfth, fourteenth, and the twentieth are given in the latter work. A very brief summary of their experience will here suffice.

1. *The Bay State Shoe and Leather Company, of Worcester, Mass.*, adopted profit sharing in 1867 and paid six dividends in the following seven years. They divided 25 per cent. of the net profits, which made a bonus on wages of from 2 to 5 per cent. The company decided that the plan conferred no benefits upon themselves, there being labor troubles and no improvement in the character of service, and very little to the employés and accordingly abandoned it.

2. *A New England Factory, of Boston, Mass.*, is recorded by Mr. Gilman as having adopted the plan in 1868. Four dividends were declared amounting to from 2 to 5 per cent. on wages. The results were satisfactory as far as they concerned the laborers, but entailed a sacrifice upon the part of firm, which in addition to the loss from the Boston fire, was greater than the firm was justified in continuing.

3. *A. S. Cameron & Co., of Jersey City, N. J.*, divided 10 per cent. of net profits among their employés from 1869 to 1877. This amounted 4½ per cent. on wages. The plan was a success in every respect, but was discontinued upon the death of the head of the firm.

4. *Brewster & Company, of New York City*, divided 10 per cent. of gross profits, before salaries of managers were withdrawn, for two years beginning with 1870. The continuance of the plan was conditioned upon the employés' refraining from labor disturbances; this condition being broken, the plan was abandoned.

5. *Lister Brothers, of Newark, N. J.*, manufacturers of fertilizers, divided in 1882 all net profits above 10 per cent. on invested capital among their employés, divided into four grades. The results being

very unsatisfactory, the firm returned to their former plan of a small indeterminate bonus to a few of their highest grade employés.

6. *A Mercantile Firm, of Boston, Mass.*, experimented with profit sharing in several forms for nearly ten years. Their conclusion was that few appreciate what was done for them, and that "it is better to pay good salaries to those who earn them, and if there is to be profit sharing, let it be offered to the most capable men, but in lieu of salary.[1]"

7. *Keene Brothers, of Lynn, Mass.*, manufacturers of shoes, adopted a plan of profit sharing in 1885, but did not make public any details. One or two divisions were made; but the personnel of the firm was changed and the plan was abandoned. It had not prevented labor disturbances during the years that dividends were paid.

8. *Norton Brothers, of Chicago*, manufacturers of sheet metal goods, divided profits for the year 1886. The dividend amounted to about 8 per cent. on wages for the year. The plan was abandoned "because it put on the same level the careless, thoughtless, indifferent workman with the conscientious and intelligent man. We are not prepared to say that it is necessarily a failure under all circumstances, but it failed with us for the reason that a large proportion of our employés have not intelligence enough to comprehend it."

9. *The New England Granite Works, of Westerly, R. I.*, adopted an elaborate plan of profit sharing in 1886, chiefly as a protection against labor difficulties. Lack of good faith was charged by both sides; no bonus was ever paid.

10. *The Bucyrus Steam Shovel and Dredge Company, of South Milwaukee, Wis.*,[2] divided 25 per cent. of net profits, for the year 1886, among its employés on the basis of wages. For a few following years the bonus was made an indefinite one and then the plan was abandoned as having few advantages.

11. *L. H. Williams, Contractor, of New York City*, divided profits for the year 1886. Mr. Williams' death, the following year, put an end to the system.

12. *The Union Mining Company, of Mt. Savage, Md.*, decided in 1886 to divide 10 per cent. of net profits among the workmen on the basis of wages earned. Two dividends were paid, but labor difficulties were not prevented, and the plan was abandoned as not having increased the interest of 5 per cent. of the force.

[1] Seventeenth Annual Report of the Massachusetts Bureau of Labor, p. 176.

[2] Formerly of Bucyrus, Ohio.

13. *Welshans & McEwans, Plumbers, of Omaha, Neb.*, divided all net profits for 1886, after reserving interest on capital, pro rata between capital and wages. For the first year the bonus amounted to an extra month's pay on eight months' work. The following year the men went out on a general strike, and the plan was abandoned.

14. *The Sperry Manufacturing Company, of Ansonia, Conn.*, divided profits for the two years 1886–7, but without any perceptible benefit from the plan.

15. *E. R. Hull, Clothiers, of Cleveland, Ohio*, divided profits for four years following 1886. The results were satisfactory, but the plan was discontinued with a change in the firm.

16. *The Wardell Needle Company, of Lakeport, N. H.*, divided net profits equally between capital and wages for the years 1886–9, with a change of firm the plan was discontinued.

17. *The Hoffman & Billings Company, of Milwaukee, Wis.*, manufacturers of plumbers' goods, divided net profits equally between capital and labor, each laborer participating in proportion to wages earned for the years 1886–90. "This plan worked well for several years when there were profits to divide, but when we happened to have a poor year, and losses instead of gains at the end of the year, we met sour faces all around among our men, and concluded that it was too much of a 'jug-handle affair' to be continued, so we dropped it. Any company would of course have a right to expect some benefit when dividing gains with employés. We found out after profit sharing for about three years, that ours was a mistaken idea, and concluded to drop it."

18. *Rogers, Peet & Company*, manufacturers of clothing, New York City, adopted a profit sharing in 1886. Three dividends, averaging about 3 per cent. on wages, were paid. The firm write: "We distributed a share of our profits among all our employés in the expectation that the value of the principle would entitle it to a permanent establishment as part of our business policy. In this we were disappointed, for towards the close of the third year our cutters, who were the only mechanics employed in the business, went on a strike over a rather insignificant matter, to settle which we had to call in the authorities of their Trade Union. Our position was maintained by the arbitrators and the men went back to work, but we felt that our liberality towards them was not appreciated, and the next year we discontinued the profit sharing arrangement. We have always felt that we made a mistake in admitting all our employés to this participation on the same

basis; whereas, had we limited the dividend shares to those who had been in our service a term of years, the plan would have worked better all round."

19. *The Ara Cushman Company, of Auburn, Maine*, manufacturers of boots and shoes, was one of the best known profit sharing enterprises. Their experience may be taken as typical of many others. The account given by the president of the company, who rose from the workman's bench, is so expressive of the employer's attitude towards this and other phases of the labor question, and gives at the same time the attitude of the labor organizations, and the laborers themselves, that the following extended extract is given:

"Our company inaugurated a plan of profit sharing in March 1886, and continued it with some modifications and with varying success until April 1892, when we discontinued it.

"We have a capacity for something over 1000 employés (25 to 30 per cent. being females), and much of the time have had nearly or quite that number. Our pay roll has amounted to from $300,000 to $450,000 per year, which in a small city of 12,000 or 14,000 has been quite an item in business and industrial interests.

"When we started our profit sharing plan much the largest part of our employés, nine-tenths or more, were Americans, natives of the town and state, and were as a class, intelligent and enterprising, and for these reasons we were led to suppose our efforts to make the plan succeed would be better appreciated and could be more easily and more beneficially carried out. When we started on this plan the Knights of Labor were attracting much attention and were becoming strongly organized in many parts of the state and country. They were loud and often arrogant in their claims and unreasonable in their avowed aims and purposes. They had the enthusiasm as well as the inexperience of youth and worked in season and out for recognition and power, and regarded with disfavor, if not with jealousy, any plan for the alleged purpose of benefiting the working men and women, which was not under their control. They usually acted upon the assumption that employers of labor were entirely selfish in dealing with employés, and would not coöperate in nor sanction any arrangement with them except for their own benefit.

"When we started our plan it was agreed that our prices for work should be the same as the other manufacturers in the place paid for similar work, to be fixed and adjusted by a joint committee of our

employés and directors of our company. It was also agreed that our employés should not belong to any organization which could control their action as workmen, and that our company should not belong to any association which could in any way control our action as employers, but that all questions arising between the company and employés should be referred to the committee mentioned above.

"When first presented, our proposition for profit sharing was received by most of our employés with favor, by many of them with enthusiasm, and for the first year or two many of them appeared to try to make their work of such value to the company as would fairly entitle them to a dividend in pursuance of our agreement and purpose. A comparatively small number maintained their interest to the last and witnessed the discontinuance of the scheme with much regret.

"Among the prominent causes of abandonment I will mention: The inadequate ideas of most of the employés in regard to the exacting demands of business, which led them to think that the profits of business were larger and more easily earned than they are; the failure on the part of most of them to realize that success of the business such as would assure them a dividend above fairly liberal wages must depend on the individual efforts of all; many of them could see it to be the duty of the others to be faithful and diligent but did not give it a *personal* application. But altogether the most important reason why we could not make our plan successful was the opposition, open or concealed, of the labor organizations under the control of professional agitators and leaders. Their purpose was to make workingmen believe that their interests were safer and would be better subserved under the control of their organizations than in coöperation with employers of labor; that wages could be increased or maintained more certainly and to a greater extent by the arbitrary demands of labor organizations than by any alliance with employers, with the hope of a fair share of the profits. It was difficult, and became almost impossible, to adjust prices for work with our employés which were satisfactory to them and possible for us to pay, the men being constantly told, and many of them made to believe that it was our purpose to make prices fully as much lower than other manufacturers as we would ever pay in dividends. The time consumed by the committee in adjusting prices and settling questions which were constantly coming up came to be quite an annoyance as well as an expense; the men in most instances being so jealous of their supposed rights that they resisted many necessary and reason-

able requirements from the company, while making many unreasonable and impossible claims for themselves.

"Altogether we felt compelled, much to our disappointment and regret, to discontinue the plan.

"In conclusion I will venture to express the opinion, that before any system of industrial partnership or profit sharing possible to manufacturers, and hence practical and permanent can be introduced, there must be more, and to a very great extent radically different, *fundamental* teaching on the part of labor leaders and so-called labor and social reformers.

"As I read and observe I think workingmen hear much indiscriminate denunciation of the alleged selfishness, injustice and heartlessness of employers of labor, and but very little, if indeed anything, in the way of admonition or advice to themselves to do faithful, intelligent and efficient work, and in that way to command desirable positions and adequate pay. In the teaching of professed friends of labor much needs to be done first to disabuse the minds of workingmen of the prevalent idea that their employers are necessarily either their enemies, or entirely disregard their interests, and that everybody who has accumulated large wealth must have done it dishonestly and to the detriment or impoverishment of somebody else.

"When the 'New Day' of the 'Industrial Millennium,' of which reformers speak and write, is fully established it will have been brought about fully as much by the increased intelligence, industry, faithfulness and economy of wage earners as by the increased liberality of wage payers. If each would study more the common interests of both we should be nearer the dawn of better conditions."

This testimony is of significance because of the large number of employés, the length of time the experiment was tried, and the unquestioned good faith and high motives with which the plan was inaugurated and carried out. The dividends declared amounted to 2 or 3 per cent. on wages for the year.

20. *Mr. W. Eliot Fette, of Boston,* introduced the plan in his gas works in 1886. The workmen were to get a dividend on the dividend declared on stock. Since the fixed capital in this business is large such a dividend made quite an addition to wages. The plan was abandoned because of failure of dividends in recent years and lack of appreciation on the part of the men.

21. *The Boston Herald* divided profits in 1887, the dividend amount-

ing to 3½ per cent. on wages. Discontinuance was due to change in the firm, and to business complications.

22. *The Crump Label Company, of Montclair, N. J.*, adopted the plan in 1887, and made one distribution of 20 per cent. of net profits for that year. A change in ownership of the enterprise resulted in a discontinuance of the experiment. Mr. Crump writes, "The effect was immediately noticeable; more work was produced of a higher class and at a lower cost than before, and all the employés took a greater interest in economy of time and material. A feeling of fellowship was also manifest and those who belonged to trade unions abandoned their membership."

23. *The Woodstock Mills Company, of Norristown, Pa.*, adopted a plan of profit sharing in 1887, which was soon discontined on account of a change in ownership.

24. *The Haines, Jones & Cadbury Company, of Philadelphia, Pa.*, manufacturers of brass and iron goods, adopted a plan in 1887 which gave the laborers a bonus of from 6 to 8 per cent. on wages. Mr. Haines writes, "We adopted profit sharing among all our employés and kept it up for five years. In that time we divided some thirty thousand dollars. We then abandoned it and now divide about two-thirds of it among twenty of our chief men and women, which I think is all right; but a general profit sharing, while in theory just, is in practice simply throwing money away." They are decidedly of the opinion that the practice reduces profits.

25. *The Springfield Foundry Company, of Springfield, Mass.*, began to divide profits in 1887, and discontinued the plan after three years trial. The bonus amounted to 2 or 3 per cent. on wages. The firm say, "In our business, it was an injury rather than a benefit to us. We could not see any perceptible increase in the production of our men, nor interest in the care of their tools or material. On the contrary, our employés began to think that they were the proper parties to fix wages, and the prices at which we should sell the products. The employés were also careful to take advantage of their membership in the Labor Unions to enforce their demands. Since we have abandoned the system of profit sharing, these troubles do not exist."

26. *The St. Louis (Mo.) Shovel Company*, divided profits from 1887 to 1894. The plan was practically that of the Nelson Company, from whom they took the idea. Their opinion is that the plan decreases the profits of the firm, and "so long as Labor Unions dominate labor,

profit sharing cannot be a success nor prevent labor troubles, even though employers conscientiously and liberally endeavor to work under the system. We had conducted our business on this plan for several years, paying dividends regularly, submitting books to inspection of any committee the employés should so select, making dividends every year with one exception, and two or three occasions where honesty to ourselves did not justify it. The Union was established in the shop during the Pullman troubles and the men demanded that we be made a Union shop, that they appoint the foreman, which we regard a necessary power to retain in the hands of the management for obvious reasons. They demanded that Union labels be put upon our goods, to which merchants would seriously object, and this when no existing trouble outside the works was evident. We decided that we could not afford to have the business taken out of our hands, although a minority of the employés only made the demand, but they were backed by the Labor organizations. Our works were picketed by Union men to prevent employment of other than Union men. We thereupon closed down for several weeks and discontinued the profit sharing system."

27. *The Globe Tobacco Company, of Detroit Mich.*, divided 1 per cent. of gross profits during 1886–8, but discontinued the plan as having no satisfactory results. The bonus amounted to about 10 per cent. on wages.

28. *Siegel, Cooper & Co., of Chicago, Ill.*, adopted a plan in 1892, modeled after the Bon Marché, of Paris. The plan was soon abandoned. They write, "Every week we did a good business they were tickled to death, but as soon as business might be dull, there would be more kicks than we could stand; so we gave the thing up. It seems that conditions in America and the old country are so different that the same plans do not work."

29. *The Watertown (N. Y.) Steam Engine Company* divided profits for the year 1891. Their experience was "that in the case of a fair proportion of our men we secured better service, better regard for the interests of the business, but that a still larger number of the men regarded their dividends as simply so much extra pay and were no more careful or helpful than before. We are quite willing to believe that if the experiment had been continued for a number of years we should have developed among the men, a sentiment which would have compelled the indolent and indifferent ones to give us better service or incur the disapproval and ostracism of their fellow workmen. The

result for the first year, however was so far from showing any very favorable improvement that we discontinued it."

30. *The Malvern (Ark.) Lumber Company* adopted a system of profit sharing in 1894. The net profits were to be divided between the stockholders, the management and the laborers, in the same proportion that the capital invested, the wages of management, and the wages of employés bore to each other. One half the dividends due the employés was to be paid in cash, the other half invested for their benefit. 95 per cent. of the labor employed is of the lowest unskilled labor, chiefly colored. A very large proportion could not read nor write and this ignorance prevented any general understanding of the plan. Added to this is the lack of permanency; for the industry is moved from place to place as the tributary timber land is cleared. One dividend was paid, and the proposition explained so thoroughly six months before, had to be discussed all over again. The men thought they were being discharged and paid off. These considerations led to the abandonment of the plan, though the firm expected no results until after the payment of at least one dividend. They attribute the failure to the character of the employés and the industry, not to any defect in the system.

31. *Heywood & Company*, shirt manufacturers, of Elizabeth, N. J., adopted the plan in 1895. The system proposed was to divide profits into four equal parts; one to be paid to capital, one to employer, one to labor, and the fourth set aside for depreciation in plant. This plan promised a bonus of from 5 to 10 per cent. on the wages of the hundred or more employés, chiefly women. Good results were secured for a few weeks; since then carelessness and inattention have returned and idleness and irregularity as of old. The plan was abandoned after a six-months' trial. A chief motive in the adoption of the plan was the improvement of the character of the employés.

32. *The Wright and Potter Printing Company, of Boston, Mass.*, tried profit sharing for two years. A fixed percentage of profits was divided among all employés considered deserving by the superintendent. This included nearly all of their 150 employés. The results were not satisfactory and the plan was dropped. The firm now distributes a percentage to foremen and heads of departments.

33. *The Toledo, Ann Arbor and North Michigan R. R. Company* adopted, in 1887, one of the most significant systems yet made public. It is true that the plan has been abandoned without anything resulting

from it in the way of dividends; for the road has never earned a dividend. As this has been the experience of all Michigan roads, except one, for many years, it is no reflection upon the road or the system adopted. The system is important, not from the evidence it can give either pro or con, but from the principle upon which it is founded. It is the only American profit sharing enterprise, so far as the writer has knowledge, which openly avows the right of an employé to a share *in the enterprise* as a fundamental principle. The ordinary plan simply recognizes the right of the employé to a juster share in the product of his labor, with no guarantee as to the future except as the employer may determine. It is true that Mr. Nelson and others have avowed this principle in their efforts for employés, and that Mr. Pomeroy and others have admitted the justness of the principle. But certain provisions in the system adopted by the Ann Arbor road recognize the principle of incorporeal property, as Professor H. C. Adams[1] has termed it, "the right of the workman to his work and to a share in the industry which his endeavor has helped to produce." From this point of view, two provisions of this system are worthy of presentation:

"Rule Third: Every officer and employé, who shall have been in the service of the Company continuously for twenty (20) years or more and voluntarily retires from its service with an honorable discharge, shall be entitled to receive, and have delivered to him, a certificate of the full capital paid up stock of the company, which shall equal in amount at its par value, the total sum paid him as wages for the last year he was in the service of the Company.

"Rule Fourth: If any officer or employé of the Company aforesaid, shall be so disabled, while in the line of active duty, as to be unable to resume his place for a period of six months or more, he shall be entitled to receive a certificate of the full paid up capital stock of the Company, which shall equal in amount, at its par value, the gross sum paid him for the year immediately preceding his said disability. And if any officer or employé shall lose his life while in line of active duty, his wife, if he has one, or if not, his legal representative, shall be entitled to receive a certificate of the full paid up capital stock of the Company which shall equal in amount at its par value, five (5) times the gross sum paid him for the year next preceding his death. Provided, however, that this rule shall not apply where a claim for damages is made in the courts."

[1] See address before the Congress on Industrial Conciliation and Arbitration; held at Chicago in November 1894, and other writings of Professor Adams.

Similarly each officer, except the president, and each employé was to receive a dividend on his wages equal in per cent. to the dividend declared on capital stock.[1]

SUMMARY.

A brief summary must here suffice. Of the fifty firms which have adopted the system, twelve continue it, five have abandoned it indefinitely, and thirty-three have abandoned it permanently. Those which continue the plan have an experience extending on an average, through seven years. The second class average but one year, and recognizing the insufficiency of such a trial have not decided it a failure. The third class vary, in length of trial, from a maximum of eight years to a minimum of six months; the majority having tried it for a peried of from two to three years. In comparison with European experience, one is struck with the brevity of the trial. As to a fundamental principle, the large majority are of the opinion that such a plan results in a financial loss to the employer, he being recouped if at all in non-computable ways. Those which continue the plan do so, not as a matter of philanthropy, but as a matter of justice if not of business. These are about equally divided in their opinion as to the direct financial benefit of the plan to the firm. While it is true with any such question, that one success will prove that it can be done with profit and any number of failures not prove the contrary; yet it is as a general type, not an individual variation, that such a system has social significance.

A further study will justify two general conclusions: First, that such a system will succeed only with a select few of employers, those with whom social motives have an extraordinary influence and with a grade of skilled or intelligent labor. Second, such a system is of some importance to society from a statical point of view, but little, if any at all, from that of social progress.

PAUL MONROE.

THE UNIVERSITY OF CHICAGO.

[1] Credit is due to President J. M. Ashley for the adoption of this plan. He writes recently: "I am quite confident that the plan which the 'Ann Arbor' Company adopted, can be successfully and profitably used by all railroads and by all corporations or business firms which employ a large number of men, especially manufacturing or mercantile establishments, and in fact all employers of labor."